

**INVESTMENT ADVISER**  
CAPITAL GROWTH MANAGEMENT  
LIMITED PARTNERSHIP  
Boston, Massachusetts 02110

# CGM Focus Fund

59th Quarterly Report  
June 30, 2012

A No-Load Fund

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## MAILING ADDRESS

CGM Shareholder Services  
c/o Boston Financial Data Services  
P.O. Box 8511  
Boston, MA 02266-8511

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## WEBSITE

[www.cgmfunds.com](http://www.cgmfunds.com)

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This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

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*Investment Adviser*

**Capital Growth Management**  
*Limited Partnership*

## To Our Shareholders:

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CGM Focus Fund declined -12.6% during the second quarter of 2012 compared to the Standard and Poor's 500 Index which lost -2.8% over the same period. For the first six months of the year, CGM Focus Fund returned 1.8% while the Standard and Poor's 500 Index grew 9.5%.

Toward the end of the first quarter of 2012, investors seemed to be focusing more on the U.S. economy and rising corporate profits than on deteriorating conditions in the Eurozone. The equity market as measured by the S&P 500 Index delivered a strong showing for the period, up just over 12.5% for the first three months of the year. But then in April, economic reports began to emerge which pointed to a slowdown in the recovery and the market reacted immediately by heading down.

The first quarter 2012 increase in Gross Domestic Product initially was reported at 2.2% and later revised to only 1.9%. The most glaring indicator, however, was the monthly employment report for April, which initially disappointed, and subsequently, was adjusted even further downward: April employment amounted to just 115,000 additions to the workforce and May was even worse with a weak 69,000 new positions filled. By contrast, in April 2011, the economy added 251,000 new jobs, which is just about the minimum number required to start drawing down the unemployment rate.

The Conference Board's Consumer Confidence Index took a hit in the second quarter of the year, dropping from 69.5 in March to 68.7 in April to 64.4 in May and only 62 in June. Some slowing was evident in manufacturing as well: the Institute for Supply Management's Purchasing Managers Index (PMI) which measures economic activity in this sector clocked in at 53.5 in May down from 54.8 in April. While PMI readings are still in expansion territory, the pace of growth has slowed.

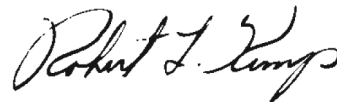
On a more encouraging note, consumer borrowing increased in March, April and May, marking nine consecutive months of growth. In May alone, consumer borrowing was up by \$17.1 billion, boosted in part by the largest one-month jump

in credit card debt in more than four years. Also included in consumer borrowing figures are auto and consumer loans though not real estate. Nonetheless, new home sales were up 7.6% from April to May of this year, an increase of 19.8% over May 2011.

Unfortunately, any good news was overshadowed by Europe, which again began to dominate the media. While April was a down month for the S&P 500 Index, May was even worse, erasing nearly all of the market's first quarter gain.

For the past year, despite growth in corporate earnings and dividends, investors have shifted into fixed income securities. As a result, the equity market is largely unchanged since April of 2011. While dividends have increased, interest rates have declined hitting a new low on the 10-year Treasury yield of 1.45% on June 1. If one assumes a low 2% inflation rate, an investor in U.S. Treasury bonds today is, in effect, paying the U.S. Treasury to hold his or her money as a result of a negative yield. The dividend yield on the S&P 500 Index at 2.05% is not only higher than the 10-year U.S. Treasury note but also, provides a long term call on the growth of the economy. By even greater contrast, today's earnings yield on the S&P 500 Index earnings of 7.7% dwarfs the 10-year Treasury bond yield which closed the quarter at 1.65%. On this basis, we believe equities look very attractive.

CGM Focus Fund held major positions in the money center banking, airline and housing and building materials industries. The Fund's three largest holdings were Delta Air Lines, Inc., D.R. Horton, Inc. (housing and building materials) and Citigroup Inc. (money center banking).



Robert L. Kemp  
President

July 2, 2012

## CGM FOCUS FUND

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### INVESTMENT PERFORMANCE

(unaudited)

Total Return for Periods Ended June 30, 2012

|                    | <b>The Fund's<br/>Cumulative<br/>Total Return</b> | <b>The Fund's<br/>Average<br/>Annual<br/>Total Return</b> |
|--------------------|---------------------------------------------------|-----------------------------------------------------------|
| 10 Years . . . . . | +83.1%                                            | + 6.2%                                                    |
| 5 Years . . . . .  | –26.8                                             | – 6.1                                                     |
| 1 Year . . . . .   | –18.2                                             | –18.2                                                     |
| 3 Months . . . .   | –12.6                                             | —                                                         |

The performance data contained in the report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assumes the reinvestment of all Fund distributions.

The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted.

## CGM FOCUS FUND

### PORTFOLIO DIVERSIFICATION as of June 30, 2012

(unaudited)

#### COMMON STOCKS

| Industry                               | Percent of Net Assets |
|----------------------------------------|-----------------------|
| Banks – Money Center                   | 25.0%                 |
| Airlines                               | 19.5                  |
| Housing and Building Materials         | 14.7                  |
| Health Care Services                   | 5.8                   |
| Leisure                                | 5.2                   |
| Home Products                          | 5.1                   |
| Electronic and Communication Equipment | 4.9                   |
| Steel                                  | 4.9                   |
| Textile and Apparel                    | 4.7                   |
| Drugs                                  | 3.9                   |
| Media                                  | 3.1                   |
| Oil – Independent Production           | 2.2                   |
| Retail                                 | 1.3                   |

### SCHEDULE OF INVESTMENTS as of June 30, 2012

(unaudited)

#### COMMON STOCKS — 100.3% OF TOTAL NET ASSETS

|                                                      | Shares     | Value(a)           |
|------------------------------------------------------|------------|--------------------|
| <b>Airlines — 19.5%</b>                              |            |                    |
| Delta Air Lines, Inc. (b) . . . . .                  | 14,100,000 | \$ 154,395,000     |
| Southwest Airlines Co. . . . .                       | 3,920,000  | 36,142,400         |
| United Continental Holdings, Inc. (b) . . . . .      | 4,540,000  | 110,458,200        |
|                                                      |            | <u>300,995,600</u> |
| <b>Banks – Money Center — 25.0%</b>                  |            |                    |
| Bank of America Corporation. . . . .                 | 9,700,000  | 79,346,000         |
| Citigroup Inc. (c) . . . . .                         | 4,270,000  | 117,040,700        |
| JPMorgan Chase & Co. . . . .                         | 2,430,000  | 86,823,900         |
| Morgan Stanley (c) . . . . .                         | 7,060,000  | 103,005,400        |
|                                                      |            | <u>386,216,000</u> |
| <b>Drugs — 3.9%</b>                                  |            |                    |
| Watson Pharmaceuticals, Inc. (b) . . . . .           | 825,000    | <u>61,041,750</u>  |
| <b>Electronic and Communication Equipment — 4.9%</b> |            |                    |
| Apple Inc. (b) . . . . .                             | 130,600    | <u>76,270,400</u>  |
| <b>Health Care Services — 5.8%</b>                   |            |                    |
| Herbalife Ltd. (c) . . . . .                         | 1,850,000  | <u>89,410,500</u>  |

See accompanying notes to financial statements.

## CGM FOCUS FUND

### SCHEDULE OF INVESTMENTS as of June 30, 2012 (continued)

(unaudited)

#### COMMON STOCKS (continued)

|                                                                        | Shares    | Value(a)             |
|------------------------------------------------------------------------|-----------|----------------------|
| <b>Home Products — 5.1%</b>                                            |           |                      |
| The Sherwin-Williams Company . . . . .                                 | 600,000   | \$ 79,410,000        |
| <b>Housing and Building Materials — 14.7%</b>                          |           |                      |
| D.R. Horton, Inc. (c) . . . . .                                        | 6,690,000 | 122,962,200          |
| Lennar Corporation . . . . .                                           | 3,400,000 | 105,094,000          |
|                                                                        |           | <u>228,056,200</u>   |
| <b>Leisure — 5.2%</b>                                                  |           |                      |
| Polaris Industries Inc. (c) . . . . .                                  | 1,136,600 | 81,244,168           |
| <b>Media — 3.1%</b>                                                    |           |                      |
| Comcast Corporation . . . . .                                          | 380,000   | 12,148,600           |
| Discovery Communications, Inc. (b) . . . . .                           | 660,000   | 35,640,000           |
|                                                                        |           | <u>47,788,600</u>    |
| <b>Oil — Independent Production — 2.2%</b>                             |           |                      |
| Continental Resources, Inc. (b) . . . . .                              | 500,000   | 33,310,000           |
| <b>Retail — 1.3%</b>                                                   |           |                      |
| Ross Stores, Inc. . . . .                                              | 320,000   | 19,990,400           |
| <b>Steel — 4.9%</b>                                                    |           |                      |
| The Timken Company . . . . .                                           | 1,640,000 | 75,095,600           |
| <b>Textile and Apparel — 4.7%</b>                                      |           |                      |
| V.F. Corporation . . . . .                                             | 550,000   | 73,397,500           |
| <b>TOTAL COMMON STOCKS</b> (Identified cost \$1,564,047,652) . . . . . |           | <u>1,552,226,718</u> |

#### SHORT-TERM INVESTMENT — 0.7% OF TOTAL NET ASSETS

|                                                                                    | Face<br>Amount |                        |
|------------------------------------------------------------------------------------|----------------|------------------------|
| American Express Credit Corporation, 0.01%, 07/02/2012 (Cost \$9,825,000). . . . . | \$9,825,000    | 9,825,000              |
| <b>TOTAL INVESTMENTS — 101.0%</b> (Identified cost \$1,573,872,652) . . . . .      |                | 1,562,051,718          |
| Cash and receivables. . . . .                                                      |                | 94,329,000             |
| Liabilities . . . . .                                                              |                | (109,074,985)          |
| <b>TOTAL NET ASSETS — 100.0%</b> . . . . .                                         |                | <u>\$1,547,305,733</u> |

#### SECURITIES SOLD SHORT (Proceeds \$75,820,199)

|                                                            | Face<br>Amount | Value(a)             |
|------------------------------------------------------------|----------------|----------------------|
| United States Treasury Notes, 3.125%, 02/15/2042 . . . . . | \$80,000,000   | \$ 85,924,960        |
|                                                            |                | <u>\$ 85,924,960</u> |

(a) See Note 2A.

(b) Non-income producing security.

(c) A portion of this security has been segregated as collateral in connection with short sale investments. (See Note 2E).

See accompanying notes to financial statements.

## CGM FOCUS FUND

### STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012  
(unaudited)

#### Assets

|                                                                     |                      |            |
|---------------------------------------------------------------------|----------------------|------------|
| Investments at value<br>(Identified cost \$1,573,872,652) . . . . . | \$1,562,051,718      |            |
| Cash . . . . .                                                      | 1,041                |            |
| Deposits with brokers for short sales . .                           | 74,495,647           |            |
| Receivable for:                                                     |                      |            |
| Securities sold . . . . .                                           | \$19,664,693         |            |
| Shares of the Fund<br>sold . . . . .                                | 68,063               |            |
| Dividends and<br>interest . . . . .                                 | 99,556               | 19,832,312 |
| <b>Total assets . . . . .</b>                                       | <b>1,656,380,718</b> |            |

#### Liabilities

|                                                                                    |                    |            |
|------------------------------------------------------------------------------------|--------------------|------------|
| Securities sold short at current market<br>value (Proceeds \$75,820,199) . . . . . | 85,924,960         |            |
| Payable for:                                                                       |                    |            |
| Securities purchased . .                                                           | 16,379,351         |            |
| Shares of the Fund<br>redeemed . . . . .                                           | 4,394,248          |            |
| Interest payable . . . . .                                                         | 942,654            | 21,716,253 |
| Accrued expenses:                                                                  |                    |            |
| Management fees . . . . .                                                          | 1,173,204          |            |
| Trustees' fees . . . . .                                                           | 32,842             |            |
| Accounting,<br>administration and<br>compliance expenses .                         | 44,861             |            |
| Transfer agent fees . . .                                                          | 75,194             |            |
| Other expenses . . . . .                                                           | 107,671            | 1,433,772  |
| <b>Total liabilities . . . . .</b>                                                 | <b>109,074,985</b> |            |

**Net Assets . . . . .** \$1,547,305,733

|                                                             |                 |  |
|-------------------------------------------------------------|-----------------|--|
| Net assets consist of:                                      |                 |  |
| Capital paid-in . . . . .                                   | \$4,626,645,318 |  |
| Undistributed net investment<br>loss . . . . .              | (3,087,003)     |  |
| Accumulated net realized losses on<br>investments . . . . . | (3,054,326,887) |  |
| Net unrealized depreciation on<br>investments:              |                 |  |
| Long positions . . . . .                                    | (11,820,934)    |  |
| Short positions . . . . .                                   | (10,104,761)    |  |

**Net Assets . . . . .** \$1,547,305,733

|                                                                      |            |  |
|----------------------------------------------------------------------|------------|--|
| Shares of beneficial interest<br>outstanding, no par value . . . . . | 59,253,473 |  |
| Net asset value per share* . . . . .                                 | \$26.11    |  |

\* Shares of the Fund are sold and redeemed at net asset value (\$1,547,305,733 ÷ 59,253,473).

### STATEMENT OF OPERATIONS

Six Months Ended June 30, 2012  
(unaudited)

#### Investment Income

|                                                             |                  |
|-------------------------------------------------------------|------------------|
| Income:                                                     |                  |
| Dividends (net of withholding tax<br>of \$37,527) . . . . . | \$ 7,355,088     |
| Interest . . . . .                                          | 2,165            |
|                                                             | <u>7,357,253</u> |

#### Expenses:

|                                                                 |                    |
|-----------------------------------------------------------------|--------------------|
| Management fees . . . . .                                       | 8,288,185          |
| Trustees' fees . . . . .                                        | 67,203             |
| Accounting, administration and<br>compliance expenses . . . . . | 276,769            |
| Custodian fees and expenses . . . .                             | 103,989            |
| Transfer agent fees . . . . .                                   | 543,016            |
| Audit and tax services . . . . .                                | 21,532             |
| Legal . . . . .                                                 | 112,048            |
| Printing . . . . .                                              | 96,940             |
| Registration fees . . . . .                                     | 20,657             |
| Line of credit commitment fee . . . .                           | 22,237             |
| Interest expense on short sales . . .                           | 887,752            |
| Miscellaneous expenses . . . . .                                | 3,928              |
|                                                                 | <u>10,444,256</u>  |
| Net investment loss . . . . .                                   | <u>(3,087,003)</u> |

#### Realized and Unrealized Gain (Loss) on Investments

|                                                |                   |
|------------------------------------------------|-------------------|
| Net realized gains (losses) on<br>investments: |                   |
| Long transactions . . . . .                    | 55,432,191        |
| Short transactions . . . . .                   | (1,379,454)       |
|                                                | <u>54,052,737</u> |

|                                                |                    |
|------------------------------------------------|--------------------|
| Net unrealized appreciation<br>(depreciation): |                    |
| Long transactions . . . . .                    | 7,386,487          |
| Short transactions . . . . .                   | (10,104,761)       |
|                                                | <u>(2,718,274)</u> |

|                                                               |                   |
|---------------------------------------------------------------|-------------------|
| Net realized and unrealized gains on<br>investments . . . . . | <u>51,334,463</u> |
|---------------------------------------------------------------|-------------------|

**Change in Net Assets from  
Operations . . . . .** \$ 48,247,460

See accompanying notes to financial statements.

## CGM FOCUS FUND

### STATEMENT OF CHANGES IN NET ASSETS

|                                                                                                                                                      | Six Months<br>Ended<br>June 30, 2012<br>(unaudited) | Year Ended<br>December 31,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------|
| <b>From Operations</b>                                                                                                                               |                                                     |                                    |
| Net investment loss. . . . .                                                                                                                         | \$ (3,087,003)                                      | \$ (3,680,722)                     |
| Net realized gains on investments . . . . .                                                                                                          | 54,052,737                                          | 85,735,626                         |
| Net unrealized depreciation on investments . . . . .                                                                                                 | (2,718,274)                                         | (823,390,681)                      |
| Change in net assets from operations . . . . .                                                                                                       | <u>48,247,460</u>                                   | <u>(741,335,777)</u>               |
| <b>From Capital Share Transactions</b>                                                                                                               |                                                     |                                    |
| Proceeds from sale of shares. . . . .                                                                                                                | 52,615,420                                          | 145,098,322                        |
| Cost of shares redeemed . . . . .                                                                                                                    | <u>(272,057,029)</u>                                | <u>(947,717,681)</u>               |
| Change in net assets derived from capital share transactions . . . . .                                                                               | <u>(219,441,609)</u>                                | <u>(802,619,359)</u>               |
| Total change in net assets . . . . .                                                                                                                 | <u>(171,194,149)</u>                                | <u>(1,543,955,136)</u>             |
| <b>Net Assets</b>                                                                                                                                    |                                                     |                                    |
| Beginning of period. . . . .                                                                                                                         | <u>1,718,499,882</u>                                | <u>3,262,455,018</u>               |
| End of period (including undistributed net investment loss of \$3,087,003<br>and \$0 at June 30, 2012 and December 31, 2011, respectively) . . . . . | <u>\$1,547,305,733</u>                              | <u>\$1,718,499,882</u>             |
| <b>Number of Shares of the Fund:</b>                                                                                                                 |                                                     |                                    |
| Issued from sale of shares . . . . .                                                                                                                 | 1,916,786                                           | 4,485,932                          |
| Redeemed . . . . .                                                                                                                                   | <u>(9,653,342)</u>                                  | <u>(31,256,825)</u>                |
| Net change . . . . .                                                                                                                                 | <u>(7,736,556)</u>                                  | <u>(26,770,893)</u>                |

See accompanying notes to financial statements.

# CGM FOCUS FUND

## FINANCIAL HIGHLIGHTS

|                                                                                                     | Six Months<br>Ended<br>June 30, 2012<br>(unaudited) | For the Year Ended December 31, |           |           |           |           |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------|-----------|-----------|-----------|-----------|
|                                                                                                     |                                                     | 2011                            | 2010      | 2009      | 2008      | 2007      |
| For a share of the Fund outstanding throughout each period:                                         |                                                     |                                 |           |           |           |           |
| Net asset value at beginning of period . . . . .                                                    | \$25.65                                             | \$34.80                         | \$29.75   | \$26.96   | \$ 52.49  | \$ 34.68  |
| Net investment income (loss) (a)(b). . . . .                                                        | (0.05)                                              | (0.05)                          | (0.11)    | (0.03)    | 0.20      | 0.06      |
| Net realized and unrealized gains (losses) on investments and foreign currency transactions . . . . | 0.51                                                | (9.10)                          | 5.16      | 2.85      | (25.51)   | 27.71     |
| Total from investment operations . . . . .                                                          | 0.46                                                | (9.15)                          | 5.05      | 2.82      | (25.31)   | 27.77     |
| Dividends from net investment income . . . . .                                                      | —                                                   | —                               | —         | (0.03)    | (0.22)    | (0.05)    |
| Distribution from net short-term realized gains . . . .                                             | —                                                   | —                               | —         | —         | —         | (8.21)    |
| Distribution from net long-term realized gains . . . .                                              | —                                                   | —                               | —         | —         | —         | (1.70)    |
| Total distributions . . . . .                                                                       | —                                                   | —                               | —         | (0.03)    | (0.22)    | (9.96)    |
| Net increase (decrease) in net asset value . . . . .                                                | 0.46                                                | (9.15)                          | 5.05      | 2.79      | (25.53)   | 17.81     |
| Net asset value at end of period . . . . .                                                          | \$26.11                                             | \$25.65                         | \$34.80   | \$29.75   | \$ 26.96  | \$ 52.49  |
| Total return (%) . . . . .                                                                          | 1.8                                                 | (26.3)                          | 17.0      | 10.5      | (48.2)    | 80.0      |
| Ratios:                                                                                             |                                                     |                                 |           |           |           |           |
| Operating expenses to average net assets (%). . . .                                                 | 1.09 *                                              | 1.05                            | 1.03      | 1.02      | 0.97      | 0.99      |
| Dividends and interest on short positions to average net assets (%) . . . . .                       | 0.10 *                                              | —                               | —         | 0.21      | 0.39      | 0.28      |
| Total expenses to average net assets (%). . . . .                                                   | 1.19 *                                              | 1.05                            | 1.03      | 1.23      | 1.36      | 1.27      |
| Net investment income (loss) to average net assets (%) . . . . .                                    | (0.35) *                                            | (0.15)                          | (0.36)    | (0.10)    | 0.44      | 0.14      |
| Portfolio turnover (%). . . . .                                                                     | 418 *                                               | 496                             | 363       | 464       | 504 (c)   | 384       |
| Net assets at end of period (in thousands) (\$) . . . .                                             | 1,547,306                                           | 1,718,500                       | 3,262,455 | 3,640,297 | 4,178,899 | 5,536,114 |

(a) Net investment income (loss) per share excluding all related short sale income and expenses (\$) . . . . . (0.04) (0.05) (0.11) 0.03 0.32 (0.02)

(b) Per share net investment income (loss) has been calculated using the average shares outstanding during the period.

(c) Portfolio turnover excludes the impact of assets resulting from a merger with the CGM Capital Development Fund on June 20, 2008.

\* Computed on an annualized basis.

See accompanying notes to financial statements.



## CGM FOCUS FUND

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### NOTES TO FINANCIAL STATEMENTS — June 30, 2012

(unaudited)

**1. Organization** — CGM Focus Fund (the “Fund”) is a non-diversified series of CGM Trust (the “Trust”) which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other funds whose financial statements are not presented herein. The Fund commenced operations on September 3, 1997. The Fund’s investment objective is long-term growth of capital. The Fund intends to pursue its objective by investing in a smaller number of companies, and/or in a more limited number of sectors than diversified mutual funds. In addition, should the investment outlook of the Fund’s investment manager so warrant, the Fund may engage in a variety of investment techniques including short sales designed to capitalize on declines in the market price of specific equity securities of one or more companies or declines in market indexes.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**2. Significant accounting policies** — Management has evaluated the events and transactions from June 30, 2012 through the date of issuance of the Fund’s financial statements. For the Fund, there were no material subsequent events that required disclosure in the financial statements or footnotes.

**A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees (the “Board”). Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (“OTC”) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. For securities with no sale reported, the last reported bid price is used for long positions and the last reported ask price for short positions. Corporate debt securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board, which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. United States government debt securities are valued at the current closing bid, as last reported by a pricing service approved by the Board. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value.

When current market prices or quotations are not readily available or do not accurately reflect fair value, valuations may be determined in accordance with procedures adopted by the Board. For example, when developments occur between the close of a market and the close of the NYSE that may materially affect the value of some or all of the securities, or when trading in a security is halted, these procedures may be used. The frequency with which these procedures are used is unpredictable. These valuation procedures may result in a change to a particular security’s assigned level within the fair value hierarchy described below. The value of securities used for net asset value (“NAV”) calculation under these procedures may differ from published prices for the same securities.

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

The Fund may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts (cash flows, earnings) to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. To increase consistency and comparability in fair value measurements and related disclosure, the Fund utilizes a fair value hierarchy which prioritizes the various inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 – Prices determined using: quoted prices in active markets for identical securities.
- Level 2 – Prices determined using: other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.).
- Level 3 – Prices determined using: significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available in the circumstances.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's investments as of June 30, 2012:

| Classification         | Valuation Inputs           |                                                        |                                                    |
|------------------------|----------------------------|--------------------------------------------------------|----------------------------------------------------|
|                        | Level 1 -<br>Quoted Prices | Level 2 - Other<br>Significant<br>Observable<br>Inputs | Level 3 -<br>Significant<br>Unobservable<br>Inputs |
| Common Stocks*         | \$1,552,226,718            | \$ —                                                   | \$ —                                               |
| Debt Securities        |                            |                                                        |                                                    |
| Commercial Paper       | —                          | 9,825,000                                              | —                                                  |
| Total                  | <u>\$1,552,226,718</u>     | <u>\$ 9,825,000</u>                                    | <u>\$ —</u>                                        |
| <b>Shorts:</b>         |                            |                                                        |                                                    |
| Debt Securities        |                            |                                                        |                                                    |
| United States Treasury | —                          | (85,924,960)                                           | —                                                  |
| Total                  | <u>\$ —</u>                | <u>\$(85,924,960)</u>                                  | <u>\$ —</u>                                        |

\*All common stocks held in the Fund are Level 1 securities. For a detailed break-out of common stocks by major industry classification, please refer to the Schedule of Investments.

- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date plus one basis for daily NAV calculations. However, for financial reporting purposes, investment transactions are reported on trade date (date the order to buy or sell is executed). Dividend income is recorded on the ex-dividend date net of applicable foreign taxes, a portion of which may be recoverable.

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

The Fund will accrue such taxes and recoveries as applicable based upon its current interpretations of the tax rules and regulations that exist in the markets in which it invests. Interest income is recorded on the accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis and may include proceeds from litigation. Non-cash dividend payments, if any, are recorded at the fair market value of the securities received.

- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Management has analyzed the Fund's tax positions for the open tax years ended December 31, 2011 and has concluded that no provisions for federal income tax are required in the Fund's financial statements. Management of the Fund has determined that there are no uncertain tax positions that would require financial statement recognition, de-recognition or disclosure. Management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations and interpretations thereof.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. These adjustments have no impact on the Fund's net assets or results of operations. Temporary book/tax differences, if any, will reverse in a subsequent period. The difference between book basis and tax basis unrealized depreciation is attributable primarily to the temporary book/tax difference of tax deferral of losses on wash sales.

As of June 30, 2012, the components of distributable earnings on a tax basis were as follows:

| Undistributed<br>Ordinary<br>Income | Undistributed<br>Long-term<br>Capital Gains | Net Unrealized<br>Appreciation/<br>(Depreciation) |
|-------------------------------------|---------------------------------------------|---------------------------------------------------|
| \$ —                                | \$ —                                        | \$(11,838,049)                                    |

The identified cost of investments in securities held long, owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at June 30, 2012 was as follows:

| Identified Cost | Gross Unrealized<br>Appreciation | Gross Unrealized<br>Depreciation | Net Unrealized<br>Depreciation |
|-----------------|----------------------------------|----------------------------------|--------------------------------|
| \$1,573,889,767 | \$116,833,318                    | \$(128,671,367)                  | \$(11,838,049)                 |

For the year ended December 31, 2011, the capital loss carryovers utilized or expired and the accumulated net realized loss on sales of investments for federal income tax purposes which are available to offset future taxable gains, prior to distributing such gains to shareholders, are shown in the table below:

|       | Capital Loss<br>Carryovers<br>Utilized | Capital Loss<br>Carryovers<br>Expired | Remaining<br>Capital Loss<br>Carryovers | Expires<br>December 31, |
|-------|----------------------------------------|---------------------------------------|-----------------------------------------|-------------------------|
|       | \$126,953,014                          | \$ —                                  | \$1,494,593,946                         | 2016                    |
|       | —                                      | —                                     | 1,572,159,776                           | 2017                    |
| Total | <u>\$126,953,014</u>                   | <u>\$ —</u>                           | <u>\$3,066,753,722</u>                  |                         |

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

Capital losses may be utilized to offset future capital gains until expiration. Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carry forwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book/tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated realized gain/(loss). Permanent book/tax differences are primarily attributable to net operating losses. The Fund also may utilize earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book/tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year. The tax characterization of distributions is determined on an annual basis.
- E. Short sales** — The Fund may sell securities short. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing the security at the market price at the time of the replacement. The Fund is liable for any dividends or interest paid on securities sold short. While the short sale is outstanding, the Fund is required to collateralize its obligations, which has the practical effect of limiting the extent to which the Fund may engage in short sales. Under certain market conditions, short sales can increase the volatility of the Fund and may lower the Fund's return or result in losses, which potentially may be unlimited. The market value of securities held in a segregated account at June 30, 2012 was \$108,007,000 and the value of cash held in a segregated account was \$74,495,647, a portion of which may have been restricted at June 30, 2012.
- F. Indemnities** — In the normal course of business, the Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. The Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.
- G. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars each day at the prevailing exchange rate. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.

#### 3. Risks and uncertainties

- A. Non-diversification risk** — The Fund is non-diversified, meaning it may invest a significant portion of its investments within a single industry, sector of the economy or fewer individual holdings than a diversified fund. Therefore, the Fund may be subject to greater price volatility or be adversely affected by the performance of particular industries, sectors, or individual holdings compared to the performance of a diversified fund.
- B. Risks associated with foreign investments** — The Fund may invest in securities issued by institutions, corporations, and governments established by or located in foreign countries, which may be developed or undeveloped countries. Investing in foreign securities may involve significant risks. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of the Fund or other assets of the Fund, political or financial instability or diplomatic and other developments which could affect such investments. Foreign stock markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. Additionally, because some foreign securities the Fund may acquire are purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

The Fund's Prospectus and Statement of Additional Information contain additional information on other risks and uncertainties relating to the Fund's investments.

- 4. Purchases and sales of securities** — For the period ended June 30, 2012, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$3,609,465,050 and \$3,830,216,809, respectively.

#### 5. Fees and expenses

- A. Management fees** — During the period ended June 30, 2012, the Fund incurred management fees of \$8,288,185, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership ("CGM"), certain officers and employees of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million of the Fund's average daily net assets and 0.90% on amounts in excess of \$1 billion of the Fund's average daily net assets.

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

- B. Other expenses** — The majority of expenses are directly attributable to the Fund. Expenses that are not readily attributable to the Fund are allocated among each of the three funds comprising the Trust in an equitable manner, taking into consideration, among other things, the nature and type of expense and the funds' respective net assets. CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities; and (iv) compliance in connection to the Investment Company Act of 1940 and to Sarbanes-Oxley Act of 2002. The accounting, administration and compliance expenses of \$276,769, for the period ended June 30, 2012, are shown separately in the Statement of Operations. These expenses includes the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, including \$194,544 of the salaries of CGM employees who are officers of the Fund.
- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ending December 31, 2012, each disinterested trustee will be compensated by the Trust with an annual fee of \$70,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the Trust's Board and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, the Fund is responsible for \$10,000 per trustee annually, plus an annual variable fee calculated based on the proportion of the Fund's average net assets relative to the aggregate average net assets of the Trust.
- 6. Line of credit** — The Fund has a \$40,000,000 committed, secured line of credit with State Street Bank and Trust Company. Borrowings under the line will be charged interest at 1.25% over the higher of the Federal Funds Rate and the Overnight LIBOR Rate. The Fund incurs a commitment fee of 0.11% per annum on the unused portion of the line of credit, payable quarterly, through October 15, 2012. There were no borrowings under the line of credit during the period ended June 30, 2012.
- 7. Guarantees and indemnifications** — Under the Trust's organizational documents, its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties for the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss from such claims is considered remote.



## CGM FOCUS FUND

### FUND EXPENSES

(unaudited)

As a shareholder of CGM Focus Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period January 1, 2012 to June 30, 2012.

#### ***Actual return and expenses***

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

#### ***Hypothetical example for comparison purposes***

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

|                                             | <i>Beginning<br/>Account Value<br/>01/01/12</i> | <i>Ending<br/>Account Value<br/>06/30/12</i> | <i>Expenses Paid<br/>During Period*<br/>01/01/12 – 06/30/12</i> |
|---------------------------------------------|-------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------|
| Actual                                      | \$1,000.00                                      | \$1,017.93                                   | \$5.96                                                          |
| Hypothetical<br>(5% return before expenses) | \$1,000.00                                      | \$1,018.96                                   | \$5.96                                                          |

\* Expenses are equal to the Fund’s annualized expense ratio of 1.19%, which includes expenses related to short sales activity, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

## CGM FOCUS FUND

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### ADDITIONAL INFORMATION

(unaudited)

#### **Availability of proxy voting information:**

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2012 are available without charge, upon request by calling 800-345-4048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the CGM Funds website, [www.cgmfund.com](http://www.cgmfund.com), and the SEC's website, [www.sec.gov](http://www.sec.gov). The voting records can also be found on the SEC's website on the N-PX filing.

#### **Portfolio holdings:**

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330.

#### **Advisory agreement approval:**

In considering renewal of the advisory agreement, during meetings held in March and April 2012, the Board considered the following factors and came to the following conclusions:

1. The Board considered the nature, extent, quality and scope of the investment advisory and administrative services provided by CGM to the Fund. The Board agreed that the quality of the CGM professional team working on the Fund was very high, and was satisfied with the quality of CGM's advisory and administrative services.
2. The Board considered the investment performance of the Fund and CGM and reviewed information regarding the performance of the Fund as compared to market indices and a peer group of other capital appreciation funds selected and provided by Lipper, Inc., an independent provider of investment company data. Despite comparatively poor performance for the one-year, three-year, and five-year periods ended December 31, 2011, the Board noted the strong performance of the Fund for the ten-year period ended December 31, 2011 and that for such ten-year period the Fund (a) exceeded the median performance for the other mutual funds included in the Lipper reports (ranking in the fourth percentile for the ten-year period ended December 31, 2011), and (b) outperformed the S&P 500 Index. The Board agreed that this performance reflected in large measure the focus of CGM on long-term performance in managing the Fund's assets, including taking advantage of strategic trends in the economy that might take some time to develop. The Board acknowledged that, while for some periods this focus on long-term performance might cause the Fund to lag other comparable mutual funds with a more short-term focus, over the longer term CGM's approach had proven its worth.
3. The Board discussed the costs of the services provided and profits realized by CGM from the relationship with the mutual funds advised by CGM and the private fund managed by CGM. The Board also compared the profit margins of CGM with public information on the profit margins of some publicly held investment advisory firms. The Board found that CGM's profit margins were reasonable and not excessive.
4. The Board discussed with CGM whether economies of scale might be realized with growth in the Fund, but in light of the fact that the Fund experienced net redemptions in 2011, the Board determined that it would not be advisable at this time to seek to make adjustments to the break point structure of the advisory fees paid by the Fund.



## CGM FOCUS FUND

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### ADDITIONAL INFORMATION (continued)

(unaudited)

5. The Board received and considered information comparing the advisory fees paid by the Fund and the overall expenses borne by the Fund with those of funds in the relevant expense universe as selected and provided by Lipper, Inc. The Board noted that the overall expense ratio of the Fund was below the median overall expense ratios of other mutual funds included in the Lipper reports. The Board considered that the advisory fee paid by the Fund was above the median for its Lipper peer group, but concluded that the fee was reasonable in light of CGM's active investment style, the flexibility of the Fund to sell securities short and to leverage positions, and the long-term performance of the Fund. The Board concluded that the advisory fees paid by the Fund and the overall expenses borne by the Fund were reasonable and competitive.

In addition to the foregoing, in light of the fact that CGM could potentially benefit from soft dollar arrangements of the Fund, the Board reviewed the brokerage commissions of the Fund and concluded that the brokerage commissions were reasonable, particularly given CGM's focus on best execution.

## CGM FOCUS FUND

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### BOARD OF TRUSTEES

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G. KENNETH HEEBNER  
MARK W. HOLLAND  
ROBERT L. KEMP  
JAMES VAN DYKE QUEREAU, JR.  
J. BAUR WHITTLESEY

### OFFICERS

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G. KENNETH HEEBNER, *Vice President*  
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NICOLE M. FEMBLEAUX, *Assistant Vice President*

### INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT LIMITED  
PARTNERSHIP  
Boston, Massachusetts 02110

### TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY  
Boston, Massachusetts 02111

### SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.  
P.O. Box 8511  
Boston, Massachusetts 02266-8511